

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re : **Chapter 11 Case No.**
:
LEHMAN BROTHERS HOLDINGS INC., et al., : **08-13555 (JMP)**
:
Debtors. : **(Jointly Administered)**
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**SECOND INTERIM APPLICATION OF LAZARD FRÈRES & CO. LLC,
DEBTORS' INVESTMENT BANKER FOR ALLOWANCE OF COMPENSATION
AND FOR THE REIMBURSEMENT OF ACTUAL AND NECESSARY EXPENSE
INCURRED FOR THE PERIOD FROM
FEBRUARY 1, 2009 THROUGH JUNE 30, 2009**

TO THE HONORABLE JAMES M. PECK,
UNITED STATES BANKRUPTCY JUDGE:

Lazard Frères & Co. LLC, ("Lazard"), Investment Banker to Lehman Brothers Holdings Inc. ("LBHI") and its affiliated debtors (collectively the "Debtors"), hereby submits its Second Interim Fee Application (the "Interim Application") pursuant to sections 330 and 331 of title 11 of the United States Code (the "Bankruptcy Code") for an allowance of compensation for professional services rendered to the Debtors and for reimbursement of actual and necessary expenses incurred in connection with such services from February 1, 2009 through and including June 30, 2009 (the "Compensation Period") as set forth in their engagement letter (the "Engagement Letter"), attached hereto as **Exhibit A**.

BACKGROUND

1. On September 15, 2008 (the “Commencement Date”), the Debtors commenced a case under chapter 11 of the United States Code (the “Bankruptcy Code”). The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 105(a) and 331 of chapter 11 of title 11 of the United States the Bankruptcy Code.

2. This Application is submitted pursuant to the terms of the Administrative Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses for Professionals and Committee Members dated November 17, 2008 (the “Administrative Order”). Pursuant to the Administrative Fee Order, Lazard is seeking interim allowance and full payment, without any holdback of fees, of \$7,329,000.00 and \$26,310.54 for reimbursement of expenses relating to services rendered on behalf of the Debtors during the Compensation Period.

3. On December 17, 2008, this Court entered certain Order Pursuant to sections 328(a) and 1103(a) of title 11 of the United States Code, 11 U.S.C §§ 101-1532 (the “Bankruptcy Code”) and rule 2014 the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and rule 2014-1 of the Local Bankruptcy Rules of the Southern District of New York (the “Local Rules”) authorizing the retention and employment of Lazard Freres & Co. LLC as Investment Bankers for the Debtors *nunc pro tunc* to September 15, 2008 (the “Retention Order”), attached hereto as **Exhibit B**.

4. On December 22, 2008, this Court approved the management buyout of the Debtors' Investment Management Division. Lazard acted as financial advisor to the Estate in connection with the transaction and pursuant to section 2(b)(ii) of the Engagement Letter between Lazard and LBHI, Lazard has requested a Sale Transaction Fee of \$5,000,000.

Additionally, Lazard acted as financial advisor in connection with the sale of the Debtors' stake in an alternative asset manager based in the United Kingdom. Pursuant to section 2(b)(iii) of the Engagement Letter, Lazard has requested a Sale Transaction Fee of \$329,000.

5. All services for which Lazard requests compensation were performed for or on behalf of the Debtor.

COMPENSATION REQUEST

6. Lazard seeks allowance of compensation for professional services rendered to the Debtors during the Compensation Period in the aggregate amount of \$7,329,000.00 and for reimbursement of expenses incurred in connection with the rendition of such services in the aggregate amount of \$26,310.54, for a total award of \$7,355,310.54 (the "Compensation Amount"). During the Compensation Period, Lazard expended a total of approximately 2,322.8 hours for which compensation is requested.

7. For the convenience of the Court and all parties in interest, attached hereto as **Exhibit C** is a summary setting forth the name of each professional for whose work on these reorganization cases compensation is sought.

8. Prior Monthly Applications for the Compensation Period:

Date Filed	Period Covered	Requested				Amounts Paid		Net Requested
		Fees	Expenses	Proposed Reduction	Amended Expenses	Fees	Expenses	
05/12/09	2/1/09 - 2/28/09	\$400,000.00	\$9,857.70	(\$570.70)	\$9,287.00	\$320,000.00	\$9,857.70	\$79,429.30
06/04/09	3/1/09 - 3/31/09	400,000.00	10,316.15	(516.24)	9,799.91	320,000.00	10,316.15	79,483.76
06/16/09	4/1/09 - 4/30/09	400,000.00	4,118.64	(177.93)	3,940.71	320,000.00	4,118.64	79,822.07
07/17/09	5/1/09 - 5/31/09	5,729,000.00	2,044.26	(254.98)	1,789.28	0.00	0.00	5,730,789.28
08/14/09	6/1/09 - 6/30/09	400,000.00	1,493.64	0.00	1,493.64	0.00	0.00	401,493.64
TOTAL		\$7,329,000.00	\$27,830.39	(\$1,519.85)	\$26,310.54	\$960,000.00	\$24,292.49	\$6,371,018.05

SUMMARY OF SERVICES

9. During the Compensation Period, the Debtors relied heavily on the experience and expertise of Lazard's professionals in dealing with matters described in Paragraph 10. Since the bankruptcy filing of LBHI on September 15, 2008 and through the Compensation Period, Lazard's highly skilled restructuring and mergers and acquisitions professionals devoted significant time and effort to perform properly and expeditiously the required professional services. Lazard professionals based in the United States and Europe spent over 2,300 hours during the Compensation Period on various Lehman related matters, including but not limited to the investment management division, merchant banking, real estate funds, venture capital, alternative energy, commercial banks and thrifts and investments in alternative asset managers.

10. A summary of some of the services rendered by Lazard during the Compensation Period are as follows:

- a) *Sale of Lehman's Investment Management Division:* Lazard acted as the sell-side advisor to the Estate in the management buyout of the

Investment Management Division. Between October and December, Lazard ran a comprehensive sale process for the business and worked with the Debtors to negotiate a management buyout bid, which was ultimately determined to be the winner at an auction held on December 3, 2008. The sale subsequently closed in May 2009.

During the Compensation Period, Lazard was involved in the closing process of the management buyout transaction and also negotiated the purchase of the European and Asian divisions of Lehman Brothers Asset Management as part of the transaction. Lazard reviewed purchase agreements, verified financial statements and participated in calls to facilitate the processes.

- b) *Sale of or Strategic Alternatives for Lehman Brothers Bank:* Lazard has been actively engaged in the sale process of Lehman Brothers Bank ("LBB"), a Delaware thrift comprised of three businesses: mortgage servicing, small business finance and student lending. Senior Lazard professionals, in consultation with Alvarez & Marsal ("A&M") and LBB's management, initiated a sale process for the assets and liabilities of LBB during which Lazard contacted many potential strategic and financial buyers. From the marketing process, Lazard worked to try and consummate a transaction with several parties. However, based on analysis performed by A&M and Lazard, none of the alternatives were in the best interests of the Estate. Lazard then worked with LBB and A&M to consider other alternatives.

Lazard professionals conducted a thorough and comprehensive sale process for the small business finance unit of LBB on a standalone basis. Lazard contacted a number of potential buyers, sent confidentiality agreements, facilitated due diligence, scheduled and attended management presentations and held numerous discussions with management, counsel, regulators and other interested parties. Lazard worked with management to negotiate deal terms, draft a purchase agreement and obtain finalized documentation. In March and April of 2009, LBB closed the sale of a substantial portion of the assets of the small business finance division.

Lazard continues to work with LBB to evaluate alternatives for all or part(s) of the business that are in the best interests of the Estate.

- c) *Sale of Lehman's Merchant Banking & Venture Capital funds:* Since October 2008, Lazard has been actively engaged in the sale of Lehman's interest in its Merchant Banking and Venture Capital funds. Lazard has run a full sale process for both funds, during which Lazard professionals contacted over 200 potential buyers and sent out over 80 confidentiality agreements. During the Compensation Period, Lazard facilitated the initial closing for the Lehman Brothers Venture Partners transaction, held in early February 2009. After the first close, Lazard continued to work closely and stay in regular communication with the

counsel to the Debtors, the Estate and management to help facilitate the additional closings necessary to fully execute the transaction. As of the filing of this interim fee application, at least one additional closing remained before the Venture Capital transaction is complete.

Following the extensive work that went into running the sale process for Merchant Banking, which ultimately led to six final proposals, Lazard continued to dedicate considerable time structuring the final sale transaction and ensuring its successful execution. Lazard continued to work closely with the counsel to the Debtors to finalize the purchase agreement and all related documents. During the process, Lazard communicated regularly with the Estate and the advisors to the creditors. Additionally, Lazard assisted in drafting a presentation that the Estate delivered to the Lehman Board of Directors for their approval of the transaction. The transaction ultimately closed in April 2009.

- d) *Strategic Review of Lehman's Real Estate Private Equity Funds:* Lazard conducted a strategic review with the Estate of alternatives for the Lehman Brothers Real Estate Private Equity business. Lazard ran a three-round auction process culminating in the selection of two parties to separately acquire the Equity and Mezzanine Funds. During the Compensation Period, the Lazard team worked diligently with the Estate to complete the three-round marketing process (which began with over 100 interested parties) and continued discussions, negotiations and diligence with the interested parties.

Specifically, during the Compensation Period the Lazard team performed the following tasks: (i) assisted in the development of management presentation materials and facilitated management meetings; (ii) responded to diligence questions from potential sponsors, which required significant Lazard resources given the specificity of the questions and large size of the real estate portfolio; (iii) facilitated diligence calls; (iv) participated in structuring discussions with legal counsel; and (v) negotiated terms with potential buyers. Significant Lazard senior resources were required to review term sheets and proposals with potential sponsors and ultimately negotiate terms with multiple parties. Throughout the process, the Lazard team provided regular in-person updates to key constituents. As of the filing of this interim fee application, this transaction has not yet closed.

- e) *Sale of Lehman's SkyPower Assets:* Lazard professionals were involved in the sale process for SkyPower, a renewable energy company. Lazard performed financial analysis and facilitated due diligence requests. Lazard professionals also discussed valuation and the sale process strategy with the Estate.
- f) *Sale of Lehman Trust:* Lazard was actively involved in the sale

process for Lehman's trust business. Since October and through the Compensation Period, Lazard, together with Alvarez & Marsal, has had discussions and meetings with a number of potential buyers, and reviewed financial information. In addition, Lazard attended meetings, evaluated proposals, reviewed legal documents and negotiated terms with key constituents. As of the filing of this interim fee application, a buyer has been selected but the transaction has not yet closed.

- g) *Investment in Alternative Asset Managers:* Lazard worked closely with Lehman to evaluate the status of an equity position in a U.S. alternative asset manager. Lazard met with the management of the alternative asset manager several times to conduct extensive due diligence and review financial and other information. Lazard performed financial analysis and shared its findings with Alvarez & Marsal.
- h) *International Transactions:* During the Compensation Period, Lazard professionals based in Italy devoted significant time and resources providing strategic advice relating to the sale of an asset management business in Italy.

ACTUAL AND NECESSARY DISBURSEMENTS OF LAZARD

11. As set forth on **Exhibit D** annexed hereto, Lazard has disbursed \$26,310.54 as expenses incurred in providing professional services during the Compensation Period. Lazard has maintained detailed records of actual and necessary expenses incurred during the Compensation Period. With respect to expenses, it should be noted that Lazard has absorbed certain expenses customarily charged by other professionals in bankruptcy cases. For example, Lazard does not allocate office telephonic charges by client and thus these costs are absorbed by Lazard in its overhead and not charged to the Debtors' estate. Lazard respectfully submits that the expenses for which it seeks allowance during the Compensation Period are necessary and reasonable both in scope and amount.

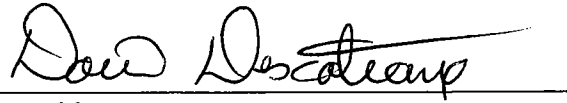
CONCLUSION

12. It is respectfully submitted that the amount requested by Lazard is fair and reasonable given (a) the complexity of the issues presented, (b) the time and labor required, (c) the skill necessary to perform the financial advisory services, (d) the preclusion of other employment, and (e) the customary fees charged to clients in bankruptcy and non-bankruptcy situations.

WHEREFORE Lazard respectfully requests (i) an interim allowance of compensation for professional services rendered during the Compensation Period in the amount of \$7,329,000.00 and reimbursement for actual and necessary expenses Lazard incurred during the Compensation Period in the amount of \$26,310.54; (ii) the allowance of such compensation for professional services rendered and reimbursement of actual and necessary expenses incurred be without prejudice to Lazard's right to seek additional compensation for services performed and expenses incurred to during the Compensation Period which were not processed at the time of this Application; and (iii) such other and further relief as is just

Total Amount of Compensation Requested:	\$7,355,310.24
Less: Amounts Paid to Date:	<u>(\$984,292.49)</u>
Net Amount of Compensation Requested:	<u>\$6,371,018.05</u>

Dated: New York, New York
August 14, 2009

A handwritten signature in black ink, appearing to read "David Descoteaux", written over a horizontal line.

David Descoteaux
Managing Director
LAZARD FRÈRES & CO. LLC
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000
Investment Banker for the Debtors and
Debtors in Possession

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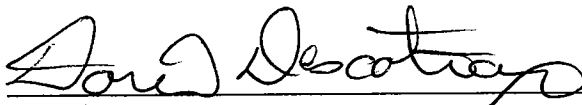
CERTIFICATION OF LAZARD FRÈRES & CO. LLC

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

I, David Descoteaux, declare as follows:

1. I am a Managing Director with Lazard Frères & Co. LLC, an investment bank with principal offices located at 30 Rockefeller Plaza, New York, New York 10020. I am authorized to execute this Certification in connection with Lazard's Second Interim Fee Application in the above-referenced bankruptcy cases.

2. To the best of my knowledge and belief, Lazard is in compliance with Fee Review Committee's recommendations for internal and external photocopy expense reimbursement, and the US Trustee's guidelines regarding over-time related expenses for meals and transportation.



David Descoteaux
Managing Director

Dated: 8/14/09